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SUBJECT: JUNE 8 MEETING OF THE AD-HOC LIAISON COMMITTEE

REF: STATE 55527

¶1. Summary: The United States used the June 8 meeting of the Ad Hoc Liaison Committee (AHLC) -- the principle policy-coordinating mechanism for donor assistance to the Palestinian Authority (PA) -- to focus donors on the need to (1) strengthen the PA with immediate budget support and (2) foster economic growth by developing the Palestinian private sector. PA Prime Minister Salam Fayyad urged donors to meet the PA's baseline budgetary needs for 2009 and provide the assistance necessary for the PA to implement its plan for Gaza recovery. As expected, few donors made new commitments of assistance, however, with many tying continued aid to improvements to conditions on the ground and progress on negotiations between the parties. The Israeli delegation emphasized the steps that Israel is taking to improve the Palestinian economy, including removing obstacles to access and movement in the West Bank. On Gaza, the Israeli delegation linked increased access for goods and personnel in support of humanitarian assistance and early recovery efforts to the establishment of end use verification and monitoring mechanisms. End summary.

"Assistance is Political"

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¶2. Norway's Foreign Minister Stoere opened the meeting with a call for donors to fulfill their pledged commitments from the 2007 Paris and 2009 Sharm al-Sheikh donors' conferences and meet the PA's immediate budgetary needs. Stoere argued that direct budget assistance is necessary to keep Fayyad's new government viable and for the PA to make progress on economic development in the West Bank and recovery in Gaza. Stoere cautioned, however, that donor commitments to the PA depend upon a "political horizon" in the form of progress toward a peace settlement. He also called on Israel to quickly reduce restrictions on access and movement and stop settlement construction. "International donor support is, in essence, political, not humanitarian," he said.

¶3. U.S. Special Envoy for Middle East Peace George Mitchell, who addressed the meeting on his way to the region, assured donors that the U.S. is committed to moving the parties as

quickly as possible to meaningful negotiations to realize a two-state solution. He reiterated the U.S. position that both sides need to live up to their roadmap obligations, specifically that Israel stop settlements and the PA improve security and end incitement. Mitchell asked donors to provide immediate budget assistance to ensure the viability of the PA, which he stated was necessary to advance peace efforts. In his remarks, Office of the Quartet

Representative Tony Blair added that there is no better team than President Mahmoud Abbas and Fayyad to build the PA's institutional capacity, arguing that the international community must support the PA government if we truly are committed to a two-state solution. Directing his comments primarily toward the Israeli delegation, Blair concluded by saying that "squeezing Gaza has proven to be the wrong strategy" and that the international community could not afford to forget the people of Gaza.

#### The PA: A Bleak Picture

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¶4. PM Salam Fayyad presented a stark picture of the PA's financial situation. In 2009, donor assistance, he said, has fallen short of the PA's budgeted need by approximately \$30 million per month. As a result, the PA has not been able to meet even its recurrent expenses, accumulating millions of dollars of bank debt to pay PA salaries while postponing payments to the private sector. Fayyad bluntly stated that if donors believe in the PA and think that it should continue, then they need to provide immediate budget support in addition to pledged assistance already in the pipeline (including the U.S. pledge of \$200 million). He appealed to donors "to look hard for additional resources" and, at a minimum, commit to raising average monthly disbursements by \$30 million for the remainder of the year - the minimum required to allow the PA to function. In order to begin funding Gaza's recovery, Fayyad said, the PA requires immediately \$300 million of the almost \$4.8 billion pledged at the Sharm al-Sheikh donors' conference, most of which has not materialized. The \$300 million would allow the PA to implement the housing compensation and reconstruction components of its plan for Gaza.

¶5. Fayyad emphasized that financial support needs to be accompanied by a sustained international commitment to changing the reality on the ground in the West Bank in preparation for a two-state solution. He acknowledged the GOI's recent removal of two important checkpoints as helpful, but noted that much more needs to be done quickly to improve access and movement and conditions for economic growth. On Gaza, Fayyad expressed frustration that five months after the end of the conflict, GOI restrictions on many items, including construction materials, remain in place. He stressed that current access restrictions run counter to the interests of the PA, Israel, and the international community as Gazans lose confidence in the commitments made at Sharm and as the illicit tunnel activity flourishes. Fayyad expressed support for a United Nations (UN) plan to jumpstart \$78 million in stalled humanitarian construction projects through UNRWA and UNDP, while noting that the UN plan promises to address only a small portion of the need.

#### Israel: Steady Improvements

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¶6. The Israeli delegation used its presentation to express commitment to support Palestinian economic growth and the development of a viable Palestinian economy, which it described as being in Israel's strategic interest. Irit Ben Abba, MFA Deputy Director General for Economic Affairs, pointed to action that Israel is taking to reduce barriers to access and movement and promote economic activity in the West Bank, specifically: increasing the number of permits for Palestinian businessmen to enter Israel and travel abroad via Ben Gurion; the removal of checkpoints near Ramallah and Nablus; and a commitment to upgrade the Jenin/Jalameh crossing. She stressed, however, that there cannot be genuine economic development without continued improvements

to security and the rule of law, and called on the PA to do more to prevent attacks, including through prosecutions and confiscation of weapons. "We do not wish to keep up obstacles," she said, "but as long as there are security threats, we have no choice."

¶7. In Gaza, she continued, conditions must be put in place to ensure that donor assistance does not allow Hamas to benefit.

Ben Abba said that increased access for goods, cash and personnel into Gaza must be linked to the establishment of mechanisms, developed in conjunction with the PA and donors, to ensure that assistance is not misused and diverted. Israel, like the PA, offered its qualified support for the UN plan as a potential model for facilitating the entry of humanitarian and commercial goods.

#### The Donor Response

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¶8. A few donors declared new commitments in support of the PA's budgetary needs. Germany announced that it would provide 25 million euros (\$34 million) through the EU's PEGASE mechanism to pay for fuel and electricity transfers to Gaza; the UK said that it would make 10 million pounds (\$16 million) in budget support available immediately; and the UAE announced it would disburse \$45 million in assistance this year from its Paris commitment (the UAE did not clarify the intended purpose of the funds.) (Note: Arab donors were represented by Egypt, Tunisia, Kuwait, the UAE, Saudi Arabia, and Jordan, as well as the Islamic Development Bank and Saudi Development Fund, which sent low- to mid-level officials. End note.) The European Commission (EC) declared that it so far this year had transferred 160 million euros (\$223 million) in regular, monthly installments to the PA through PEGASE, and is on schedule to fulfill its pledged commitment by July. However, the EC said that it planned to continue to provide an additional 39 million euros (\$54 million) in three, monthly disbursements through October; after that, it would not be able to commit additional budget support for the rest of 2009.

¶9. Despite these commitments, many donors indicated growing "donor fatigue," and some Western donors suggested that significant signs of progress in conditions on the ground and in the political process are necessary to justify continued high levels of development and budget assistance to the PA. Canada, for instance, said that it had a responsibility to show its tax payers "demonstrable results" from its assistance before it could ask for more. The UK said that it was time for "transformational change" in conditions on the ground and called on Israel to make bold and concerted efforts to improve the investment climate in the West Bank.

¶10. The U.S. called on donors and the parties to work in tandem to develop the Palestinian private sector and improve conditions. Through the U.S. model, the PA sets the development priorities and creates the conditions for private sector growth by enhancing security and the rule of law. Donor nations provide financial resources, technical assistance, and access to private investment, while Israel lowers barriers to access and movement. By pursuing this model in targeted private sector initiatives already underway, such as those to promote the development of affordable housing and small- and medium-sized enterprises, donors will create virtuous cycles of economic opportunity and trust between the parties that can change the environment on the ground.

#### The Next AHLC Meeting

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¶11. In his closing comments, FM Stoere announced that the next meeting would be held on the margins of the United Nations General Assembly in New York at the ministerial level. He called on donors and the parties to continue their work on the local level through the Joint Liaison Committee (JLC).

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